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ECONOMIC FREEDOM

Waiting for the free-market Mahatma

It's time for a new freedom movement

NITIN PAI

OVER A CENTURY ago, the idea of political freedom in India was the matter of debate in the parlours of the educated elite. It was more a matter of intellectual exertion among the few, rather than a popular movement among the many. It was not as if colonial Indians lacked the aspiration for political freedom; it was just that the concept was too abstract for the masses. It was the genius of Mahatma Gandhi that converted elitist objectives and popular aspirations into a simple mantra that everyone could understand. He also armed every single person with a simple, inexpensive weapon—non-violent civil disobedience—that could be used to further the objective of attaining freedom.

A century later, India is in a similar situation—this time it is economic freedom that it seeks. Though it attained political independence in 1947, India to this date, and even after the reforms of the 1990s, is generally unfree from an economic point of view. Vestiges of the socialistic mindset, well-exploited by populist politicians forms a powerful political constituency, not least because the alternative—free-market capitalism—has not been packaged into a form that is acceptable to the several hundred millions who actually desire it.

Ajay Shah, a Mumbai-based economist recently wrote: “In India, a broad majority appears to aspire to become a country based on open minds and an open economy. But the evolution of India in these directions is far from assured. Too many people who grew up in the 1960s and 1970s have socialist instincts on economic policy matters. The present ruling coalition involves giving veto power on all legislation to Left parties who got 5% of the votes in 2004 elections, who aspire for a future for India based on a closed economy and a foreign policy which is sensitive to Chinese and Russian interests. The Shiv Sena burns books.”

If Gandhi could crystallise the idea of political freedom and simplify its practice, then surely, the same could be done for the idea of economic freedom.



How can India continue to chip away at making progress towards becoming a modern, liberal society characterised by ever-expanding freedoms for individuals in terms of both society and economy?”

India has never lacked entrepreneurial talent. While many businesses in independent India came to rely on the socialist crutches that were put in place since Nehru, the

most enduring ones were successful in spite of the government’s best attempts to stifle them. Like India’s largest IT companies, some succeeded due to the government’s inability to regulate them. And then there are others that used their skills to game the socialist system to stay successful.

Socialism did succeed in making Indian firms less competitive internationally. But it failed to completely smother India’s entrepreneurial base. And it’s not just the big corporates—there are hundreds of thousands of small businesses who fit this pattern: though stifled by inflexible labour laws

and industrial licensing they retained their highly entrepreneurial instincts.

While there are a number of advocates of free market capitalism in India, none have been able to translate their ideology into a form that can be sold to India's myriad political constituencies that are cut along ugly lines based on geography, religion, community and language. Economic freedom has the potential to cut across these retrogressive divisions only if it is espoused in a form that is readily understood by the masses. It also has the potential to directly change the destinies of one fifth of the world's population forever. And when that happens, the remaining four-fifths of the world will not remain untouched.

It's not hard to find people who have benefited from the whiff of economic freedom unleashed by P V Narasimha Rao's government fifteen years ago. But, as Niccolo Machiavelli explained five centuries ago, they remain diffident.

And it ought to be remembered that there is nothing more difficult to take in hand, more perilous to conduct, or more uncertain in its success, then to take the lead in the introduction of a new order of things.

Because the (reformer) has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises partly from fear of the opponents, who have the laws on their side, and partly from the incredulity of men, who do not readily believe in new things until they have had a long experience of them.

Thus it happens that whenever those who are hostile have the opportunity to attack they do it like partisans, whilst the others defend lukewarmly... [Niccolo Machiavelli, *The Prince*, Chapter VI]

The need for a new voice, however, has never been more urgent. If Gandhi could crystallise the idea of political freedom and simplify its practice, then surely, the same could be done for the idea of economic freedom. But even as we await the free market Mahatma, it is time for those who believe in rights and freedoms to organise themselves and add their voices, and their votes, towards shaping a new national discourse.

Nitin Pai is a contributing editor of Pragati

URBANISATION

Maximum city

Can India afford its villages?

ATANU DEY & REUBEN ABRAHAM

THERE HAS been a general tendency to romanticise village life as a return to our roots. What is noticeable, though, is that most people who romanticise village life in India tend to live in cities—in India, or elsewhere. They also seem incapable of noticing the irony implicit in this romanticisation, since their forefathers, too, were once villagers—who migrated to cities for good reason.

There was no greater proponent of villages than Mahatma Gandhi, who had been educated in London, and had a law career in urban South Africa. Gandhi's most vehement critic at the time was

B R Ambedkar, who knew about village life as an untouchable. Attacking Gandhi's view on the republic of villages as overly sentimental, Ambedkar urged his followers to leave their rural persecution behind, get

educated and move to urban centres.

We have a choice between 600,000 small villages and 600 well-planned, new, vibrant urban centres. Clearly, anyone who lives in the average Indian village and has access to information and money would like to leave for towns and cities.

The conflating of the development of rural people with the development of villages perhaps explains the misplaced emphasis on the latter. The fact that despite decades of attempts at developing rural areas, nothing much has been

In urban areas, people aggregate in numbers sufficient for markets to deliver goods and services efficiently and cheaply

achieved in the development of rural people suggests that the answers may lie elsewhere.



The idea is not new

Every developed economy has followed a path which begins with agriculture being the main source of income for the majority of the population, and ends with agricultural employment being a very small fraction of the total labour force. The shift has always been from a village-centric, agriculture-based economy to a city-centric, non-agricultural economy—as agriculture becomes more productive, labour is released into manufacturing and services, which have higher productivity and incomes.

At the low levels of economic prosperity seen in rural India, economic growth is a precondition for development. Economic growth, in turn, is a cause and consequence of urbanisation. The reason is not hard to see. In urban areas, people aggregate in numbers sufficient for markets to deliver goods and services efficiently and cheaply.

Consider the supply of an essential infrastructure service such as electricity. The economics of power generation and distribution do not allow decentralisation to the level of villages that are home to a few hundred people. The average cost of per unit of power makes it prohibitive. The only way for a small 1-2MW decentralised plant to provide power for a village of 1,000 people is for the villagers to pay substantial premiums—which is highly improbable. No wonder then that essential services such as uninterrupted electricity are not available at the village level. By comparison, supplying decentralised power for the needs of a few tens of thousands of people is economically feasible.

Villages are not the proper object of analysis when it comes to economic growth, and hence economic development. By insisting on the development of villages, scarce

resources, which could have been more efficiently used elsewhere, are wasted. The same resources can be used in the development of cities. It seems to us that the answer to the development of rural people paradoxically lies in urban development. About 700 million Indians live in villages. Clearly, there is little scope for urbanisation in their case by having them migrate to existing cities—those are already bursting at the seams. Practically all Indian towns and cities are unplanned and inefficiently use land and other resources. They are inadequate even for current residents, leave alone the idea of adding hundreds of millions of more people to them. The country requires new urban centres to accommodate the

hundreds of millions of people who need to be in such centres.

In fact, the answer to Mumbai's or Delhi's problems is, interestingly enough, that these cities lose their centrality to the Indian economy as other regional centres come up and mass migration to large cities ceases. People tend to forget that New York was once considered an unliveable, hopelessly polluted city. At least part of the solution to the city's problem lay in the creation of other centres such as Chicago, St. Louis and the cities of the west which relieved the pressure on New York itself.

India has a choice of futures, say, in 2030. Will the majority of Indians continue to live in 600,000 small villages engaged in near-subsistence agriculture or will they be in living in 600 well-planned vibrant cities (or 6,000 towns of 100,000 population, for that matter) working in non-agricultural sectors and enjoying a rich social and cultural life?

Depending on how we use our resources, the latter future can be a reality. Achieving that reality would be the greatest challenge for India and arguably, the most rewarding as well. Rather than trying to trap people in villages and agriculture, the focus should be on the creation of new urban centres which will lead to economic growth and development of people.

Atanu Dey is chief economist at Netcore Solutions in Mumbai and author of the Rural Infrastructure & Services Commons (RISC) model. Reuben Abraham is director of the Cornell/ISB Base of the Pyramid Learning Lab at the Indian School of Business.



DEFENCE

All new olive-greens

The army needs structural reform

SUSHANT K SINGH

WITH A STRENGTH of 1.13 million and six operational commands, the Indian Army is the second largest standing army in the world. It traces its roots to the private sentinels of the commercial interests of the East India Company. It then evolved as a professional force under the British Crown, performing with distinction in many theatres during the Second World War. Since independence, the path

charted by the Indian Army can be categorised into three distinct phases; the first from 1947 up to the debacle in 1962, characterised by a withering of the fabled force and culminating in a catastrophic disaster; the second from 1962 up to the intervention in Sri Lanka—a period of growth, consolidation and mixed bag of results in conventional warfare; and the current one that started in the early 1990's, in paral-

lel with the flaring of the insurgency in Jammu & Kashmir. This is a period of apparent longueur in conventional warfare but of heavier commitment in low-intensity and asymmetric conflicts.

There are two distinct views about the current state of the Indian Army. The widely held view is of an organisation steeped in glorious tradition, the last bastion of a democratic India, despite being a victim of 60 years of politico-bureaucratic ineptness. From the other view it is an archaic organisation, in a pre-World War II oneirism, totally dissociated from the modern realities of a vibrant democracy and an aspiring economic powerhouse. This view portends the army's increasing irrelevance to the society due to ongoing economic and social churning in the country.

In the decades after independence, the public viewed politicians, law enforcement agencies and other civilian institutions with increasing cynicism. The army remained largely unscathed and commanded a relatively higher degree of respect from citizens. This began to change in the last decade. The stories of organisational misdemeanours—the *Tehelka* exposé, pilferage of rations and liquor, falsifying kills for awards and political influence in promotions among them—have been splashed in the national media. For its part the army sanctimoniously dismisses them as individual aberrations rather than signs of systematic failure or evidence of an organisation under stress.

The strength of the army has multiplied in the last sixty years, translating into more boots on the ground and invariably, more layers to the hierarchy. While the army has undertaken organisational appraisals at various times these have resulted in minor alterations to the extant system. Most of these changes have been forced by introspection after major operations like the Indo-China war of 1962, the intervention in Sri Lanka and the Kargil conflict. The lessons from the military response after the terrorist attack on the parliament in 2001 have led to a new strategy and consequent changes in the organisational hierarchy.

The constant tension between the need for higher operational effectiveness and greater employee satisfaction have resulted in many strange decisions. The most bizarre and almost laputan in its imagery pertains to constant degradation of army ranks – lower appointments being tenanted by higher ranks. A lieutenant colonel who led a thousand strong battalion in 1986 has been leading a 150 man company since 2004.

The Indian Army is at crossroads today and the direction it espouses now will be guided as much by both internal and external factors. Independent India's history is replete with examples of vibrant and dynamic institutions (like the Election Commission) coming into their own thanks to out-

standing individuals. In the army's case, perhaps the only effort at instituting transformational change came during the stewardship of General K Sundarji, in the mid-1980's when Arun Singh was in the Defence Ministry. Unfortunately, both fell by the wayside in the political fallout of the Bofors scandal and the process has never been attempted since.

The report of the Kargil Review Committee and the recommendations of the Group of Ministers that suggested major structural and policy changes have not been implemented by the government so far. The Parliamentary Committee on Defence has repeatedly recommended a holistic review of the army by an independent high-level committee to examine the entire security gamut and suggest reforms. The May 2006 report of the Parliamentary Committee is telling in its pithiness: "[there] has been no thorough review of the structural set up of the armed forces since independence, especially of the army whose strength constitutes almost ninety percent of our defence forces...The proposed committee should be given the mandate to suggest suitable manpower restructuring by way of trimming the force size

Rather than aiding the organisation, partial reviews have done greater harm by pushing a major review and restructuring exercise further on to the back burner.

(teeth-to-tail ratio) with corresponding increase in the use of advanced and sophisticated technology in our armed forces. The committee should also examine the relevance of involvement of the defence forces in non-defence activities."

There is an urgent need to institute such a committee that is empowered to propose structural reform of the army. The Parliamentary Committee noted earlier this year that the defence ministry has totally ignored its recommendation.

While it is time to take stock of how the situation has progressed in the Indian Army sixty years on, it is imprudent to merely replicate the model followed by others as every nation has to weigh its options against the backdrop of its own social and environmental mores. The social and cultural moorings of the organisation, type of hostilities encountered, level of technology and larger manpower issues should form the basis of the review.

Implementing these reforms will lead into a tumultuous and potentially fractious period of flux for the army. The organisation will have to tread carefully during this transition and the top leadership will need to display the will to complete this monumental assignment in the face of organisational inertia and deeply embedded interests.

Sushant K. Singh is a member of The Indian National Interest community.

A view from Nagaland

SIR - In reference to Nitin Pai's article 'Contained By China' (*Pragati*, No 4, July 2007), I agree that India doesn't seem to understand the ever-changing dynamics of China's foreign policy vis-à-vis India and it's getting worse against the background of two countries' race for economic dominance.

While China has devoted much time, energy and commitment to understand the Indian psyche, the same cannot be said of India. Is it because India's primary focus of attention is internal party and personality politics? Is it because India lacks a coherent foreign policy because there is no political party continuously in power for long or there are too many political parties in power for an inadequate period of time to focus on foreign policy? Or is it because India is blessed/cursed with too many cultures, religions, beliefs, as also too many biases and prejudices, which impede a coherent world view, hence a coherent foreign policy?

At the end of April this year, I attended an interaction programme organised by the Public Diplomacy Division of the External Affairs Ministry at Guwahati. Another followed at Shillong the next day, and the two culminated in the interaction of all North Eastern states with the Minister of External Affairs at Shillong in June. He was here to push forward India's Look East policy. What struck me during the interaction at Guwahati is that the officials of our External Affairs Ministry had hardly any clue about what the North East is all about. How then did the Government of India arrive at this 'policy' and decide that the North East is 'crucial' for this 'policy'?

Of course, it is another matter that we in this region increasingly see this policy as treating the North East merely as a transit point for corporate India to conduct business with our Eastern neighbours.

The fact of the matter is that we still do not know what actually is the Look East Policy. It's fine for the government

to build the necessary infrastructure for the success of this policy but where would the profits go? What about our apprehensions about increased drug, flesh and human trades, HIV/AIDS, environmental issues, etc? There are no safety nets in place, and some of our communities here are still living with one leg in the 'cave'? There are no efforts to dispel our misgivings. Moreover, are we in this region to be content only with infrastructure development—are we not to be a part of and share in the 'superstructure'?

I agree with Mr Pai's call for "empowering distant citizens through tangible political equality" and "reconstituting the Rajya Sabha along the lines of the American Senate". But whether it is politics, development, power-sharing, decision-making or even cricket, India is beset with the malaise of 'regionalism' and all its negative concomitants. There are certain regions of India that will fight tooth and nail before conceding 'equality' to other regions. With such a mindset, it is not surprising that this country's woes remain endless, let alone its foreign policy remaining at the level of a 'crouching' tiger.

Then there is the problem of the quality and calibre of our people in public life that needs no elaboration. Even if Nagaland has the same number of representatives in the Rajya Sabha as Uttar Pradesh, the representatives may still be handpicked more for their loyalty to the party leadership than for their stewardship of the state's interests.

Getting the right people elected, therefore, remains an important concern. What has reduced public life to such a nadir that the best of our lot are shy of taking up leadership roles and worse still, are reduced to silence?

Monalisa Changkija
Editor, Nagaland Page
Dimapur, Nagaland

Comments?

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Essential readings of the month

1-2-3 tango

THE BUSH administration and New Delhi announced the principles by which the United States will resume sales of civilian nuclear fuel and technology to India, as promised by President Bush in July 2005. But the big picture is clear: The administration is betting that the benefits to the United States and the world of a "strategic partnership" with India outweigh the risks of a giant exception to the old rules of the non-proliferation game. There are good reasons to make the bet.

You can call this a double standard, as some of the agreement's critics do: one set of rules for countries we like, another for those we don't. Or you can call it realism: The agreement provides for more international supervision of India's nuclear fuel cycle than there would be without it. The case for admitting India to the nuclear club is based on the plausible notion that the political character of a nuclear-armed state can be as important, or more important, than its signature on the NPT.

As Congress considers this deal, India might well focus on what it can do to show that it, too, thinks of the new strategic partnership with Washington as a two-way street.

- "Bet on India", The Washington Post, 29th Jul 2007

ON THE national security front, there are reasons to believe that India's Minimum Credible Deterrent (MCD) would not be affected by turn-key power reactors built by other countries. The accumulated weapons-grade plutonium in about 40 years of operating the CIRUS reactor (40MWt) and the relatively new Dhruv reactor (100MWt) has been estimated to be sufficient for the MCD.

- K Santhanam, "The end of a nuclear winter" , Mint, 23 Jul 2007

Wither APEC?

BUT AUSTRALIA almost certainly will sell uranium to India. And the entire Mohamed Haneef matter better be resolved quickly because we are taking a bath in the Indian press.

In a tumultuous week in Australian-Indian relations, APEC was the most disappointing, uranium the most important and Haneef the most embarrassing.

Though John Howard and Alexander Downer are both committed to strengthening fundamentally Australia's ties with India, Canberra came late to the clear view that India should join APEC this year.

It became impossible, however, to convince the Americans. In a badly flawed piece of strategic thinking, the US decided the participation of India would make APEC too

unwieldy. The Americans held the view that to keep APEC's regional balance and to secure broad APEC acceptance of India's membership it would be necessary to add in addition to India one extra Southeast Asian nation, probably Cambodia, and one extra Latin American nation, probably Columbia. And all this would make APEC unworkable.

Further, the US Trade Representative seems to be at least notionally enamoured of the modestly crazy idea of creating an Asia-Pacific free trade area, and India does not have a particularly good recent record on trade liberalisation. But the very idea of an Asia-Pacific FTA is complete moonshine. It's worth just as much as a dollar-free bill. Just imagine trying to get an FTA for China through the US Congress in the next 20 or 30 years. For that matter, China is not exactly a paragon of free trade either.

Fantasies like this can have their political purposes. But they should never be allowed to get in the way of real interests. Not joining APEC is a minor setback for India but an absolute tragedy for APEC.

- Greg Sheridan, "Snub to subcontinent", The Australian, 28 July 2007

Power of four

THE UNITED STATES, Japan, Australia and India are looking ahead to form a quadrilateral group to maintain the existing strategic stability and power equilibrium in Asia. China's rapid rise and its determination to expand and modernise the military power is compelling these four nations to form a quadrilateral group to work together to serve their mutual interests.

Despite the fact that it has obvious geopolitical connotation, the newly shaped quadrilateral grouping is likely to be projected not as a formal strategic coalition, but as a way to persuade a constructive engagement among the key players of Asia-Pacific and the Indian Ocean region.

India is now increasingly suspicious about China's naval expansion in Asian waters, and considers China's growing influence as a threat for balance of power in Indian Ocean. Much like Beijing, New Delhi has increased its diplomatic and military engagement in the region. Through the co-operation mantra it has successfully enhanced its regional and international profile and making serious moves to reduce China's influence to maintain the balance of power in the region.

India's strengthened engagement with US, Japan and Australia should not be considered as 'containment' of China, rather be seen as a 'real balance game'. Few months back, an effort was made to institutionalise Russia-China-India trilateral co-operation. The US, Japan and Australia quadrilateral co-operation is surging ahead in a similar fashion. India's participation in quadrilateral cooperation

grouping should also be understood as an opportunity to interact with other major powers to serve own interests.

- Amit Kumar, "India looks for the power of four", Observer Research Foundation, 2 Jul 2007

Chandra Shekhar, R.I.P.

THE COUNTRY was neck-deep in debt; our foreign exchange reserves were at a dangerously low level. We were all set to traverse the path of the profligate economies of Latin America. Suddenly, out of the blue comes forward this leadership team—clear-sighted Chandra Shekhar, sober Yashwant Sinha (his finance minister), brilliant Venkitaraman (the newly appointed RBI governor), erudite Rangarajan (the economist deputy governor)—and they articulate something that is really rare in international finance. They assert with steely determination that under no circumstances will India default on its obligations.

And to prove their point they are willing to undertake an ultimate gesture that very, very few sovereign nations have been willing to take. They physically move some of the country's gold abroad, pledge it and raise money. What an astonishing signal that was to the external world. The Claudioes of Latin America were always looking to reschedule, to re-negotiate and, more recently, to abrogate their obligations.

Here was a country far poorer in per capita terms and with a stronger case, but it was choosing to not even consider for a moment such a course of action.

- Jaithirth Rao, "With a few pieces of gold", The Indian Express, 12 Jul 2007

Left wing terrorism won't win

THE NAXALITES would be deluding themselves if they think that the soundness of their ideology or tactic has carried them so far. The Indian state can pack enormous punch once it makes up its mind. It did that in Punjab, where one of the world's deadliest terrorist movements was vanquished.

What is the way out? The Naxalites must realise that they can never achieve their dream of what they call a 'New Democratic Revolution' through protracted warfare. They

are just playing with the lives of poor and deprived sections of society.

On the other hand, government must understand that a movement which draws its strength from genuine grievances of the people cannot be stamped out.

- Prakash Singh, "Terror won't work", The Times of India, 6 Jul 2007

History didn't end at all

PEOPLE AND their leaders longed for "a world transformed." Today the nations of the West still cling to that vision. Evidence to the contrary—the turn toward autocracy in Russia or the growing military ambitions of China—is either dismissed as a temporary aberration or denied entirely.

The world has not been transformed, however. Nations remain as strong as ever, and so too the nationalist ambitions, the passions, and the competition among nations that have shaped history. The world is still "unipolar," with the United States remaining the only superpower. But international competition among great powers has returned, with the United States, Russia, China, Europe, Japan, India, Iran, and others vying for regional predominance. Struggles for honour and status and influence in the world have once again become key features of the international scene. Ideologically, it is a time not of convergence but of divergence. The competition between liberalism and absolutism has re-emerged, with the nations of the world increasingly lining up, as in the past, along ideological lines. Finally, there is the fault line between modernity and tradition, the violent struggle of Islamic fundamentalists against the modern powers and the secular cultures that, in their view, have penetrated and polluted their Islamic world.

- Robert Kagan, "End of Dreams, Return of History", Policy Review, Aug/Sep 2007

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ECONOMIC GOVERNANCE

Corroding growth

The executive's discretionary powers must be clipped

V ANANTHA NAGESWARAN

AS THE ECONOMY grows at a faster clip, the institutions that befit a large economy have to evolve simultaneously. Successive Indian governments have been found wanting. Institutions, even the ones that score very high on competence, have not been allowed the space they need, to discharge their responsibilities such that the country's long-term interests are served. Policy-making has been stymied by two factors. First, is the inability of the Congress party to mobilise public opinion in favour of national goals (and thus neutralise opposition both within and outside the party). Second, is the lobbying by interest groups and businesses to suit their narrow interests.

As a result many policies have taken contorted courses and resulted in inefficient outcomes from the national point of view. The policy of opening up the retail sector is a classic example. If the interests of smaller retail shops would be hurt by the entry of big businesses, then it does not matter whether such businesses are foreign or local. Yet, Indian businesses have slowly begun to move ahead and set up retail chains in several states. This has given rise to the speculation that the policy of not allowing foreign retail chains is not driven by national interests but business interests.

Similarly, the decisions of the Telecom Regulatory Authority of India (TRAI) have befuddled observers for their inconsistency.

Commercial decisions by the Oil and Natural Gas Commission (ONGC) to bid for oil assets globally were overruled by the Petroleum Ministry. China won access to most of the oil fields in different countries. The greatest interference in decision-making was perhaps in the area of petroleum pricing for retail users. Successive ministers – both in the National Democratic Alliance (NDA) and in the United Progressive Alliance (UPA) government - intervened against raising the retail price of petroleum products even as the international price of crude oil has been steadily rising. All political parties have been guilty of grandstanding on this issue. Increases in fuel prices have been met with demonstrations

and stoppage of work sponsored by allies of the ruling party and state governments.

The consequence is the absence of an integrated energy and public transport policy that optimises on the use of energy resources, manages traffic conditions better, improves productivity through smoother flow of traffic in cities and in highways, reduces vehicular pollution and encourages the use of public transport through better pricing and feeder-nodal relationship between bus and train services. Instead, a country that is big in numbers and short in quality roads is encouraging individualised transport options with all the attendant consequences mentioned above. The problem originates in the failure of the government to honour its own decision to de-control and set free petroleum pricing.

Another area where both the central and state governments have failed is the area of electricity generation, transmission and distribution. Fully sixty years after independence, transmission and distribution losses account for nearly 50% of all electricity generated in many States. Urban elites lead the theft in cities and also for their 'farm houses'. States have gone back on their commitment to impose even nominal pricing for the use of electricity for agriculture. Where regulatory authorities have been set up, they have not been vested with powers to implement pricing policy

It is at once disappointing and unsurprising that India embraces the rent-seeking elements of capitalism more readily than its competitive elements.

and punish errant behaviour, be it from electricity boards or from consumers. Continuous availability of electricity with stable voltage remains a distant dream for most people and is perhaps subtracting as much as 2% of GDP growth from the country.

Similar is the attitude with respect to the devolution of power for village Panchayats. State governments have failed to transfer financial powers so that the local and grass-root administrations could execute development

schemes. The governance benefits would be obvious. Public would be able to hold their elected representatives accountable a lot easily. However, it is not to be. State governments – elected and the appointed – are unwilling to let go.

Hence, in sector after sector, we have seen the executive

India's democracy has not matured into a participatory republic but has only remained symbolic by allowing a orderly transfer of power through the ballot box

unwilling to shed its discretionary powers. Businesses do not pursue reform with any vigour since they see opportunities in selective and discretionary application of laws and rules. This was in evidence in the hasty acquisition of land under hazily formulated policy on Special Economic Zones (SEZ). That is why the government is able to get away sometimes with imposing undesirable policies on businesses such as caste-based reservations. Businesses collectively have lost their moral right to protest.

Hence, the failure to assemble the building blocks of a well-regulated and transparently competitive economy has its costs. In recent times, the onset of the Asian economic crisis in the nineties and the tepid recovery subsequently attests to the failure to transition to mature middle-income economies with opportunities for all. Once opportunities to make windfall gains disappeared, investment spending failed to materialise.

Conversely, the benefits of allowing full competitive forces to play themselves out are evident in the sustained rapid growth of the information technology sector in the country. The success is not gleaned so much from the billions of dollars earned in revenues but in the fact that the

sector has thrown up many entrepreneurs, and where incumbency has not conferred much of an advantage, forcing companies to innovate and remain on their toes.

It is at once disappointing and unsurprising that India embraces the rent-seeking elements of capitalism more readily than its competitive elements. It is disappointing because the costs of embracing such negative aspects of capitalism and the benefits of eschewing them are visible. Yet there is no sense of urgency or desire to move towards a competitive and transparent market economy. It

is unsurprising because India's democracy has also not matured into a participatory republic but has only remained symbolic by allowing a orderly transfer of power through the ballot box.

While the concentration and hoarding of discretionary power has been more the norm than the exception with all governments in India, even after economic reforms were initiated, the present government has done more damage than others with its arbitrary intervention in more than one economic activity. It is very hard to sustain good behaviour but is easy to slip back into bad practice. Future conditions would perpetuate this and expand on such behaviour.

Asian experience dictates that fast economic growth cannot be taken for granted. It has to be nurtured and right now India is asleep at the wheel on this one. It needs to be shaken awake.

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Contributors' websites and blogs

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<http://www.deeshaa.org>
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EDUCATION

In the age of profound ignorance

India cannot afford to keep shackles on its education

ATANU DEY

WE FIND ourselves in the midst of a transition, from the industrial-value-added analogue world to the information-value-added digital world of the future, a dynamic world that defies comprehension and easy descriptions. The institutions that worked in the past are losing their relevance in an accelerating and rapidly changing world economy—one that is getting more interdependent and interrelated. This change is more radical than the one which accompanied the transition from a primarily agricultural to an industrial economy.

To be sure, it is not the case that agriculture and industry do not matter any more. They do, as they form the basic substrate upon which any economy necessarily rests. But they are not sufficient for meeting all the current and future demands of a modern economy. The post-industrial information economy produces and consumes products that embody knowledge. Economic success will increasingly depend on the ability to competitively produce knowledge goods.

The future is not what it used to be. The future of a century ago was not as unpredictable as today's because the set of possible futures was small. Our present uncertainty about the future has expanded not just in the size of the set but we don't even know what each possible future contains. The trend is undeniable: as we humans become more powerful in controlling our present, the future becomes less predictable. The boundaries of our ignorance and the range of uncertainties expand beyond human cognition. Our "unknowledge" of the future is unbounded.

It took thousands of years to go from the invention of the wheel to powered flight; it took only an additional 65 years for humans to walk on the moon. Just 50 years ago, IBM's 5 MB disc drive was state of the art. It cost (in today's dollars) approximately \$250,000 and was as big as a fridge. Today 5 GB – a thousand-fold more storage – costs a dollar. Each year humans create more information than was created in



the entire history of humanity. Technological advance can no longer be plotted on linear graphs; they require logarithmic scales.

Impressive technological advancement at a collective level implies that any individual is totally incapable of even comprehending the technology, leave alone control it in any meaningful sense. It is obvious that nobody knows how to build, say, a modern commercial jetliner. One may know a bit about the avionics, another may know a bit about jet turbines, and yet another about advanced composite materials, and so on. But no one knows it all.

Human ignorance manifests itself on three other dimensions in the production of goods and services. First, no one knows what the future goods and services will be. Second, no one knows who will produce those. And finally, what their impact on human society will be is a mystery. Look no further than the Internet to evaluate human ignorance along those dimensions. Could anyone have predicted any of the services we take for granted today even 25 years ago? Could anyone have picked the winners? Too many young people are doing jobs today that did not exist when they were born.

So how do we prepare to meet an unknowable and uncertain future? Not surprisingly, the answer must lie in the same forces that actually create the future. Every advance in human technology is the result of entrepreneurial activity. The innate drive to build ever higher upon the existing base of knowledge finds its full expression in economically free societies. Economic freedom and the freedom to organise lie at the core of humanity's remarkable successes.

It was possible in the static past to organise society under dictatorial authority. The feudal lords, and later kings and emperors, managed somehow to control relatively primitive society in a manner. But progress imposed enormous informational demands which no central authority could even theoretically possess. Communism's fall is evidence that even a slightly complex economy cannot be controlled because even if one has the power of coercion, no one has the knowledge to do so. Free enterprise created the complex modern world of today and free enterprise alone will not only continue to shape the future but will provide us the means to meet that future.

To prosper – indeed merely to survive – in the future would require skills that we cannot fully imagine. Certainly a small percentage of the people will continue to be engaged in occupations that have existed for generations but the majority, especially in advanced economies, will be working at jobs that require high degrees of specialisation and years of training. Those who are entering the educational system today will retire around 2070. That world is as hard for us to imagine as our world would have been for a caveman. Which imposes some very special requirements on the educational system.

The current educational system was geared to a world of the past, a world where command and control was still not entirely impossible. In India, that system served the needs of a very small segment of society and achieved only a very qualified success. It is impossible that the present system

can ever meet the future needs of the population at large. Innovation in India's education system is absolutely essential and continued state control will condemn not only the system to irrelevance but with it the entire economy as well.

So how do we get an education system that works for the present and the future? Private enterprise and innovation are conjoined twins, sharing the cardio-vascular system of economic freedom. Entrepreneurship creates immense wealth that permeates healthy economies. Entrepreneurship alone has the capacity to create innovations in education that no bureaucrat or centralised planning authority can ever hope to achieve. Yes, central control can control but it cannot create.

In an age where each of us is immensely ignorant relative to the sum total of human knowledge, the skills that the individual acquires over a lifetime of learning cannot be imparted by an educational system that was created for a different world. The resources for building that educational system are easily available. All that society has to do is to keep the state out of it so that private enterprise can do its job—which it invariably does. The role of the state is limited to light-handed regulation.

Liberalisation of the education system from the political-bureaucratic nexus is absolutely necessary. Without economic freedom, we cannot expect the entrepreneurial innovation required to make the educational system keep pace with the dramatic changes that the future has in store. It would be profoundly ignorant to not liberalise education.

Atanu Dey is chief economist at Netcore Solutions in Mumbai and author of the Rural Infrastructure & Services Commons (RISC) model.

PUBLIC HEALTH

Reforming the system

Beyond increasing public spending on healthcare

ROHIT PRADHAN

FOR INDIA to reap the benefits of the demographic dividend that is expected to form the foundation of India's growth in the coming decades, it must reform its public health system.

As important as public health is, it is also an area where India's performance is unacceptably poor. In fact, in almost every important public health indicator India lags behind its Asian counterparts. In 2005, the infant mortality rate—the

gold standard in judging the public health system of a country—stood at 56 per 1000 births, worse than China's (23), East Asia's (26) and the world average (52).

The first step to rejuvenating India's public health system is the expansion of public health educational facilities. In 2006, after a report by McKinsey, a consultancy firm, pointed out the immense shortage of public health professionals in India, the government launched the Public Health Foundation of India, a private-public initiative to establish five public health institutes. Ensuring its success, though, remains a more difficult task. Furthermore, it is unclear whether there are enough employment opportunities for the professionals that will graduate from these institutes. In the meantime, strengthening the existing community medicine departments in state medical colleges and expanding them into full-pledged public health schools is a far more effective means to expand coverage. It would not only be more cost-effective but also help tackle many diseases which are endemic to a particular region.

There are very few family medicine centres in the country and the existing ones are largely restricted to large academic centres like the All India Institute of Medical Sciences (AIIMS) in New Delhi. Since specialist courses are extremely limited in comparison to MBBS programmes, expanding opportunities for family medicine in medical colleges, would not only help improve the primary care system to a great extent but also provide better career opportunities to the fresh medical graduates whose talents are largely wasted under the current system.

Second, India currently has one of the most privatised medical systems in the world where the government meets

The number of physicians in rural areas remains small, allowing unqualified practitioners to fill up the shortage. Rural service may be compulsory for medical graduates, but it is weakly enforced.

only 17% of the total healthcare costs compared to 46% in the United States and almost 92% in Britain. The per capita government expenditure on health care at around Rs 200 is abysmally low. There is a case for greater public spending for healthcare. This can take either the form of expanding existing health insurance schemes for the poor or introducing a system of health vouchers. Patients would be able to use these vouchers at healthcare providers of their choice, thus introducing a modicum of competition and accountability.

Along with it, the government must de-link and outsource the delivery system to the private sector. As has been well documented, the government healthcare system, espe-

cially in rural areas is marked by chronic absenteeism, corruption and lack of even basic laboratory and radiological facilities. The main reason why the private sector has been unwilling to invest in rural areas is because it has been thought of as unprofitable. Higher public spending through the voucher system can address these concerns. There may be a case though, for the government to provide these services in the remotest of places.

While many may find requiring patients to pay for healthcare unpalatable, a recent study in Africa has shown that user charges actually expand utilisation of health services. Given the vastness of the country and relative disparities in incomes and wealth, India's public health system must be based on co-payment—where patients pay part of the medical bill—as well as means-tested government subsidies.

Third, the number of physicians in rural areas remains small, allowing unqualified practitioners to fill up the shortage. Currently this shortage is sought to be tackled by making rural service compulsory for medical graduates, but given weak enforceability, few graduates meet their rural service obligations. Instead, reviving the system of Licentiate Medical Practitioners which was abolished in 1952 offers greater promise. State medical colleges and district hospitals can offer short-term courses in primary healthcare designed to meet the needs of the local population.

Finally, the public health system must be localised and attuned to the specific needs of local populations. While constitutionally public health is largely in the domain of states—the central government exercises a great deal of power through fiscal control. Its relative financial strength

has ensured that the health policy development and program design are carried out at the centre. This control should pass into the hands of the states. During several public health crises, state governments have found themselves handicapped by a lack of financial and administrative control causing them to wait for Central intervention.

It has been said that 'healthcare is vital to all of us some of the time, but public health is vital to all of us all of the time'. It is time to revitalise public health itself: through rebalancing of the role of the government and the private sector as also the central and state governments.

Rohit Pradhan is a contributing editor of Pragati

The white umbrella

A shweta chhatra will revitalise Indian democracy

SHASHI SHEKHAR

THE SIXTIETH anniversary of Indian independence offers an unique opportunity to revisit the idea of democracy India and to explore a new platform to rejuvenate national politics. In traditional Hindu culture the 60th anniversary is an important milestone, amongst other things an occasion to renew marriage vows. Sixty years ago our nation married democracy and this anniversary is an opportunity to renew those vows. What better place to start looking those vows than in the Constituent Assembly debates.

One of the first resolutions under was moved by Jawaharlal Nehru on 13th December 1946 which called for India to be a "sovereign republic". Note that there was no reference to "socialist" in the original resolution. While most of the founding fathers swore by socialism it is clear from their remarks in the Constituent Assembly that it was the kind of socialism that put individual freedom and national interest above any political ideology of the day.

Minoo Masani: Equality of opportunity certainly assumes that every child in this country, every boy and girl, will get an equal opportunity to develop those faculties which he or she possesses in order contribute to the common good. That is the socialist aspect of the resolution.

Jai Prakash Narayan: my picture of a socialist India is the picture of an economic and political democracy In this democracy, men will neither be slaves to capitalism nor to a party or the State. Man will be free.

Sarvepalli Radhakrishnan: It is no good creating conditions of freedom without producing a sense of freedom. We must safeguard the liberty of the human spirit against the encroachments of the State. While State regulation is necessary to improve economic conditions, it should not be done at the expense of the human spirit.

The most telling remarks however came from Dr B R Ambedkar when he rejected amendments demanding that "socialist" be inserted into the preamble. In fact Ambedkar's remarks are a stark contrast to the kind of politics practised by those whose swear by his name today and have deified him as a demigod of Dalit politics.

Ambedkar: What should be the policy of the State, how the Society should be organised in its social and economic side are matters which must be decided by the people themselves according to time and circumstances. It cannot be laid down in the Constitution itself, because that is destroying democracy altogether...I do not see therefore why the Constitution should tie down the people to live in a particular form and not leave it to the people themselves to

decide it for themselves.

Socialism and the culture of entitlement have influenced national politics over the last 60 years. Their many perverse manifestations like reservations and minority appeasement have attained not just institutional sanctity but have become the dominant lexicon of political debate. It is important to listen to the views of the intellectual giants from the minority communities on this subject.

Minoo Masani: [the] conception of a nation does not permit the existence of perpetual or permanent minorities...ultimately no legal safeguard can protect small minorities from the overwhelming domination of big masses, unless on both sides an effort is made to get closer and become one corporate nation, a homogeneous nation"

Maulana Hasrat Mohani: I refuse to accept Muslims to be a minority. How is it that when you talk of minorities you mean Muslims only and when you talk of reservation you refer to Muslims only? The Muslims refuse to be called a minority if parties are formed on political lines.

Syed Kazi Karimuddin: [the] minorities should forego this reservation of seats under joint electorates. This is going to create permanent statutory minorities in the country. It would be to the great disadvantage and detriment of the Muslim community or any other minority community which claims reservations. Reservation of seats will create more bitterness, more jealousies, more communal hatred and Muslim disintegration.

To rejuvenate national politics some have called for a new centre-right political formation while others have argued for such a formation to be wedded to yet another -ism, "economic liberalism" as opposed to the cultural nationalism symbolised by Hindutva.

The best chance for the Right, however, is to work within the current political environment to influence change and to rejuvenate the national political debate by creating an broad platform. The sentiments expressed by the founding fathers around individual freedoms, rejecting permanent minority status in favour of equal opportunity could be the core principles of the *Shweta Chhatra*, the encompassing white umbrella of yore.

Shashi Shekhar is a resident blogger at The Indian National Interest

BOOK REVIEW

First past the post

RAVIKIRAN RAO

WHEN INDIA celebrates the diamond jubilee of its independence, it will have as its president a person who, when she was running a bank, took money from women depositors, distributed most of it to her relatives as loans and, according to the RBI, did pretty much nothing to recover the money, thereby causing the demise of the bank. This fact will be celebrated as a victory for women. To understand how India managed to accept a person in the Rashtrapati Bhavan who in any mature democracy would be in jail for fraud, it is important to read Arun Shourie's latest book.

Parliamentary System - What we have made of it, What we can make of it is a denouement of Mr Shourie's narrative. Those reading Mr Shourie over the last two decades will be familiar with the ideas. The appalling grammar too is oddly familiar and comforting, if only because Mr Shourie's personality comes through. Reading the book is like hearing an intelligent man speak: a man who believes that dissemination of his ideas is too urgent to wait for editing.

Important and urgent ideas they indeed are. Mr Shourie argues, and convincingly proves, that the parliamentary system gives us as rulers roving bandits who have an incentive to rob as much as they can, because they might not stay rulers. He takes the arguments that are advanced in favour of the system one by one and subjects them to a reality check. The system does not yield stable majorities. It does not build a durable consensus. It does not lead to the legislature acting as a check on the executive; rather, government can run only when the executive controls the legislature. It gives us a system where legislatures do not legislate, but are an arena for feudal give and take of loyalties. It fuels identity politics, where candidates are elected for of their caste and religion rather than for their capabilities or achievements. Mr Shourie piles on fact after fact, data over data in support of his contentions. No one can read the sordid saga of the Jharkhand Assembly since its formation and continue to peddle in good faith the usual arguments in favour of the parlia-

mentary system.

The strongest parts of the book are where Mr Shourie points out problems and traces their causes to three roots: the parliamentary system, first-past-the-post (FPP) elections and the misguided idea of popular sovereignty which he argues, leads to the idea of parliamentary sovereignty and then on to prime ministerial dictatorship. He argues this by quoting from parliamentary "debates" during the emergency, when laws were passed and the constitution subverted, all to protect Indira Gandhi from prosecution. These atrocities were acclaimed as blows for the sovereignty of Parliament. The utter debasement of our MPs and the servile behaviour of the Communist Party of India were a shocking revelation even to a person is quite well-informed and therefore impervious to shocks. For this alone the book is worth buying and reading. The weakest parts are when Mr Shourie suggests solutions, not because they are bad solutions, but because he does not scrutinise them with the same rigour that he applies to the existing system. He suggests a presidential form of government combined with proportional representation for

the legislature. Now I have never understood the logic of those who bemoan the FPP system and then suggest the proportional system as an alternative, because the proportional system is pretty much guaranteed to never yield a majority, while the FPP often does. But that flaw of the proportional system does not matter here, because in a presidential democracy, parliamentary majorities are not that important. In fact, to a believer of limited government, a hung parliament is an asset if it acts as a check on the executive as long as it does not lead to rapid changes of the chief executive.

There are many good reasons to support a presidential form. It increases choice for voters, because now they get to choose both their legislator and their president. Because the legislators and president do not depend on one another for their survival, both have less need to exercise complete control of the other. Acting independently, they act as a check

Review

Parliamentary System: What we have made of it, What we can make of it

by Arun Shourie
ASA/Rupa & Co, 272 pages, 2007



Photo:Willie Wonker

The Parliament reflected

on the other's activities. In the parliamentary form, to rise up the ranks, you have to be indirectly elected. This gives rise to leaders who are better at wheeling and dealing than at communicating with the people. The presidential form throws up leaders who appeal to the people. But Mr Shourie dwells only lightly on these reasons. His reasons for advocating a presidential system are that he supports a "strong executive", "especially at the centre", and that under the presidential form, ministers can come from outside the legislature and can be experts in the departments they are heading. It is doubtful that we need that strong an executive, especially at the centre. Also one suspects that ministers are more likely to be power-brokers whom the president owes patronage in return for support.

Mr Shourie supports the run-off method for electing the president. The reasoning is that the eventual winner will get over 50% of the votes giving him legitimacy. True enough, but it will also worsen the problems that exist with the FPP system. In the FPP system, the candidate with little support

will have no incentive to contest. When combined with a presidential system, you will see the gradual marginalisation of small parties. But in a run-off method, a minor candidate has an incentive to contest, if only so that he can demonstrate his support level and bargain with the leading candidates in a vote-for-cabinet berth deal. It is surprising that Mr Shourie has ignored this.

The proportional system, while not a terrible idea, will actually increase the influence of parties, and in India that means caste based parties. Under the FPP system, a one can win with small support bases, but at least winning a constituency requires knitting together caste coalitions. Under the proportional system, you would face no need to appeal to castes other than your own.

Intriguingly, Mr Shourie wants the winning number of members to be determined in proportion to the votes polled by that party, but the actual members are to be chosen from the party's list by lottery! If implemented, the system will rob MPs of any motivation to perform and ensure that votes are cast, not for the actual candidates, but for the leaders who choose them. These leaders will form an unelected "senate" and governance will be carried out by an oligarchy consisting of the president and this senate.

These criticisms are not reasons to throw out Mr Shourie's proposals, but to fine tune them. The real question is how exactly these changes are to come about. Mr Shourie thinks that India is moving towards a crisis in the political sphere that will force it to change, similar to the crisis in the economic sphere in 1991. So we can retain hope.

Ravikiran Rao is a relapsed blogger and an active observer of socio-economic trends in his spare time. He earns his living as a wage slave to an American multinational

BOOK REVIEW

A new portrait of Gandhi

CHANDRAHAS CHOUDHURY

THE LIFE of Mohandas Karamchand Gandhi is one of the most well-documented and minutely analysed lives of the 20th century. Yet, as the editor of Gandhi's collected works, which run into 100 volumes, remarked, the Gandhi story is inexhaustible, "like the Ramayana and the Mahabharata combined".

This is because Gandhi's abiding concerns - the working out of disputes large or small without descent into hatred or violence, the need for every human being to arrive at self-rule in the individual sense before demanding authority in any other sense, and the belief that worthy ends are nothing without equally worthy means - remain eternally relevant,

so that he speaks afresh to every age.

Now, the historian Rajmohan Gandhi, a grandson of the Mahatma, vividly brings to life in his massive biography the texture of Gandhi's days as he progressed from a timid anglicised student to the fearless loin-cloth-clad opponent of empire and other licensed injustices, the development of his thought across his engagements with conflict situations in England, South Africa, colonial India, and free India, the attitudes borne towards him by his many friends and foes, and the mood and colour of his age.

Mr Gandhi is well qualified to write this book for more than just reasons of family. Among his other books are biographies of Vallabhbhai Patel and C Rajagopalachari (two of the Mahatma's staunchest allies in the independence movement and brilliant politicians in their own right); a study of Indian Muslims, over whom colonial India broke up into two independent countries; and a wide-ranging study of South Asian history, *Revenge and Reconciliation*, encompassing the thought of figures such as the Buddha and the emperor Ashoka and the counsel of such texts as the Bhagavad Gita (the Mahatma's favourite book). Gandhi's intimate familiarity with South Asian history and the many sides and perspectives of the Indian freedom movement impart to his study a satisfying density and richness that place it on the highest rung of the vast literature on the Mahatma.

In an excellent early section, Mr Rajmohan Gandhi shows us how the young Gandhi, working as a lawyer defending the rights of the coloured community in South Africa, perfected the incipient methods of passive resistance and satyagraha (literally, "truth-force") through his reading of writers like Tolstoy, Ruskin and Thoreau, and his skirmishes with the South African government. When he moved back to India for good in 1914 his reputation preceded him, and he himself was ready to publicise his unusual weapons before the Indian people and to persuade them to join him in deploying them against Empire.

Among the salutary qualities of Mr Rajmohan Gandhi's work is his liberal and judicious use of quotations from Gandhi's writing, including his autobiography and other books, his weekly columns for the two Indian journals he edited, and his voluminous correspondence (he was an indefatigable letter-writer and lobbyist, once writing some

5,000 letters, all by hand, over a six-week period). The value of this approach is twofold. One, instead of the static, "finished" Gandhi enshrined in history, it presents us with a Gandhi continuously on the move, finding words for his experience as he discovers and refashions himself.

Second, it foregrounds Gandhi's engagement not only with the Raj, with the oppressive caste system and the Hindu-Muslim question, but with the English language itself. As a youth Gandhi's English was poor. As a 19-year-old journeying to England to study law, he dreaded conversation in English with his fellow passengers, recalling that "I had to frame every sentence in my mind before I could bring it out". But by steady labour he improved his English to the extent that, writing in English on the great questions of the day and rebutting the Raj at every step in a clear, forceful idiom, he did as much as any other Indian writer to domesticate the language. As the Indian historian Sunil Khilnani has observed, "English made the empire, but

[Gandhi and Jawaharlal Nehru] showed how it could be used to unmake it - how the language could be a tool of insubordination and, ultimately, freedom."

Gandhi emerges in Mr Rajmohan Gandhi's portrait as both an acute strategist and a doubting, sometimes fallible, man, viewed by some as a

saint and others as a crank. Despite his misgivings ("I often err and miscalculate") he was one of history's greatest moral visionaries, the inventor of universally relevant pacifist concepts that aspired towards breaking down adversaries non-violently. His genius extended beyond immediate conflict resolution; by the practice of never talking down or humiliating his opponents, he was also usually successful in foreclosing future conflicts. As Diana Eck has written, Gandhi "saw clearly that if conflict is cast in terms of winning or losing, of us prevailing over them, then ... the next round of the conflict is only postponed". Mr Rajmohan Gandhi's splendid biography delivers to us both the Gandhi of his time and a Gandhi for our times.

Chandras Choudhury is a freelance writer based in Mumbai. This book review first appeared in The Scotsman

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